Note 1. Summary of Significant Accounting Policies

Basis of Presentation
The financial statements were prepared to report the financial position and results of operations of the Bureau of Alcohol, Tobacco and Firearms (ATF or the Bureau). The financial statements have been prepared from the books and records of ATF in accordance with the form and content for financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 94-01, and ATF's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by ATF pursuant to OMB directives, that are used to monitor and control ATF's use of budgetary resources.

Reporting Entity
ATF, an enforcement agency within the Department of the Treasury, was given full Bureau status in 1972. ATF's mission is to enforce the Federal laws and regulations relating to alcohol, tobacco, firearms, explosives and arson. In addition, ATF is responsible for the collection of excise taxes and fees from the alcohol, tobacco, firearms and ammunition industries, as well as Special Occupational Taxes from certain businesses in the alcohol, tobacco and firearms industries.

Budgets and Budgetary Accounting
Congressional appropriations provide financing sources on an annual and no-year basis. These appropriations finance operating expenses and the purchase of property and equipment as specified by law. Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 20-6-1000 - *Salaries and Expenses Appropriation*
- 20-6-1000 - *Salaries and Expenses Reimbursable Authority*
- 20-X-1000 - *No-year Appropriation*
- 20-5/6-1000 - *Prior-year Appropriations*
- 20-6-1000 - *Appropriation Transfers*
- 20-5/6-8528, 20-X-8526 and 20-X-8528 - *Violent Crime Trust Funds*

The accompanying financial statements of ATF include the accounts of the above funds under ATF control.

Basis of Accounting
The Bureau transactions in the financial statements are accounted for in accordance with the following hierarchy which constitutes an "other comprehensive basis of accounting":

- Federal Accounting Standards Advisory Board (FASAB) standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) Principals as of September 30, 1996;
- Form and content requirements included in OMB Bulletin No. 94-01, dated November 16, 1993;
- Accounting principles and standards published by the Department of the Treasury accounting policy and procedure manuals as of March 29, 1991, which are prevalent practices; and

Note 1. Summary of Significant Accounting Policies

(Continued)

- Accounting principles published by other Federal and private sector authoritative standard setting bodies and authoritative sources.

Entity financial resources of ATF present only those resources which will be consumed in current or future operating cycles, while the non-entity categories contain resources relating to ATF fiduciary activities of revenue collection.

The Bureau records entity accounting transactions on both an accrual basis of accounting as well as a budgetary basis. Under the accrual method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Revenue and Other Financing Sources

ATF receives the majority of the funding needed to support the Bureau through congressional appropriations. ATF receives both annual and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture and furnishings). Additional amounts are obtained through reimbursements from other Federal agencies for law enforcement services performed for them by ATF.

Appropriations are recognized as a financing source at the time the related program or administrative expense is incurred. Appropriations expended for property are recognized as a financing source when the asset is consumed in operations (depreciation). Other revenue is recognized when earned, i.e., when services are rendered.

As an agent of the Federal Government, ATF collects excise taxes from the alcohol, tobacco, firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from businesses, including producers, distributors and retailers of liquor, dealers in industrial alcohol, and certain firearms businesses.

Substantially all of the taxes and fees collected by ATF net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department of the Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. Revenue collected from firearms and ammunition taxes is transferred directly to the Interior Department's Federal Aid to Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937 to support their mission. ATF disburses refunds to taxpayers and license applicants as well as to the Governments of Puerto Rico and the Virgin Islands to cover over (rebate) excise taxes collected for rum produced in these territories to support economic revitalization. The amount covered over (rebated) to these governments is based on the consolidation of figures obtained from the U.S. Customs Service and Census Bureau, and domestic distilleries. The Bureau also refunds excise taxes to taxpayers who use distilled spirits in the manufacture of non-beverage products such as medicines, food products and flavorings.

Non-entity revenue is reported on the modified cash basis of accounting and is recognized when taxes are remitted or assessed. Refunds are also reported on the modified cash basis of accounting. Liabilities for approved but unpaid refunds of tax payments are accrued at year end.

Note 1. Summary of Significant Accounting Policies

(Continued)

Receivables are established through assessments of taxes and the imposition of penalties and interest. Beginning in fiscal year (FY) 1996, ATF recognizes revenue when non-entity accounts receivable are established, following the Department of the Treasury guidance published in Accounting for Revenue, May 1995. The effect of this change was immaterial to the FY 1995 financial statements.

Assets

Entity intragovernmental assets include the fund balance with Treasury and amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by ATF. Entity governmental assets include accounts receivable and advances due from employees or vendors.

Non-entity intragovernmental assets also include the fund balance with Treasury as well as accounts receivable due from Treasury to disburse approved refund claims of excise taxes and fees. Non-entity governmental assets consist principally of receivables for excise taxes and fees which are to be distributed to the Treasury, other Federal agencies and other governments. None of the non-entity assets are considered financing sources (revenue) available to offset operating expenses of ATF.

Fund Balance with Treasury and Cash

The Department of the Treasury processes the Bureau's cash receipts and disbursements. Entity fund balance with Treasury and cash are primarily appropriated funds available to pay current liabilities and to finance authorized purchase commitments. Non-entity fund balance with Treasury is primarily escrow accounts designated to finance offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

Property and Equipment

The General Services Administration provides the land and buildings in which ATF operates and charges ATF rent that approximates the commercial rental for similar properties.

Equipment purchased, transferred or donated with a cost greater than or equal to $25,000 per unit and a useful life of two years or more is capitalized at cost and depreciated. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

At the beginning of FY 1996, ATF increased the capitalization threshold of property from $5,000 to $25,000. Items of property capitalized in previous years will continue to be depreciated over their remaining useful lives.

Equipment with a unit price less than $25,000 that is purchased in bulk, totaling $250,000 or greater, for special projects or start up activities is also capitalized. Bulk purchases are grouped according to commodity type and depreciated using the same methodology as single capitalized purchases. At the beginning of FY 1996, ATF increased the capitalization threshold of bulk purchases from $75,000 to $250,000. Bulk purchases capitalized in previous years will continue to be depreciated over their remaining useful lives.

Note 1. Summary of Significant Accounting Policies

(Continued)

Liabilities

Entity liabilities represent the amount of monies or other resources that are likely to be paid by ATF as the result of a transaction or event that has already occurred. However, no liability can be paid by ATF absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that an appropriation will be enacted. Also, liabilities of ATF arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

Non-entity intragovernmental liabilities consist of amounts payable to the Treasury for collections on excise tax and fee receivables. Non-entity governmental liabilities consist of amounts due to be refunded to taxpayers as well as amounts held in escrow for offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

Annual, Other and Sick Leave

Annual and other types of leave are accrued as earned, and the accrual is reduced as leave is taken. The balance reflects current pay rates. Sick leave is expensed as taken.

Retirement Plan

ATF's employees participate in the Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS). The FERS was established by the enactment of Public Law 99-335. Pursuant to this law, most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established, and ATF makes a mandatory 1 percent contribution to this account. In addition, ATF makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, ATF remits the employer's share of the required contribution. For ATF employees participating in CSRS, ATF makes matching contributions equal to 7 percent of base pay, or 7.5 percent for those personnel classified as law enforcement agents.

ATF does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

Note 2. Fund Balance with Treasury and Cash

Fund balance with Treasury and cash as of September 30, 1996 and 1995, consisted of the following:

FY1996 (In Thousands)		*Unobligated*		
Entity:	*Obligated*	*Available*	*Restricted*	*Total*
Trust Funds	$10,553	$ 3,748	$ -	$14,301
Appropriated Funds	46,051	25,864	3,744	75,659
Other Fund Types	-	528	-	528
Fund Balance	$56,604	$30,140	$3,744	$90,488
Cash		$ 2,242	-	$ 2,242
Non-Entity:				
Fund Balance			$1,849	$ 1,849

FY1995 (In Thousands)		*Unobligated*		
Entity:	*Obligated*	*Available*	*Restricted*	*Total*
Trust Funds	$ 7,484	$ 2,759	$ -	$10,243
Appropriated Funds	39,579	41,339	4,471	85,389
Other Fund Types	-	505	-	505
Fund Balance	$47,063	$44,603	$4,471	$96,137
Cash		$ 2,176	-	$ 2,176
Non-Entity:				
Fund Balance			$1,671	$ 1,671

Other fund types include proceeds from the sales of surplus vehicles and amounts held in suspense clearing accounts.

Entity funds restricted from use in FY 1996 represent the FY 1991 fund balance that will be withdrawn and returned to the Treasury. Entity funds restricted from use in FY 1995 represent the FY 1990 fund balance that was withdrawn and returned to the Treasury.

Note 2. Fund Balance with Treasury and Cash

(Continued)

Cash available for ATF use represents petty cash imprest and agent cashier funds. The agent cashier funds are used to finance the purchase of evidence and information from informants in open ATF investigations and enforcement operations.

Non-entity fund balance consists of offers-in-compromise held in escrow accounts representing reduced payments received by ATF from parties assessed taxes, penalties, interest and fees awaiting resolution. Non-entity fund balance also consists of cash bonds received (money orders or cash) in lieu of corporate surety bonds guaranteeing payment of taxes. These amounts are reflected as non-entity, other governmental liabilities on the Statements of Financial Position. These funds are restricted solely for the purposes described and are unavailable to fund ATF operations.

Note 3. Accounts Receivable

Accounts receivable as of September 30, 1996 and 1995, are as follows:

(In Thousands)	***FY 1996***		***FY 1995***	
	Entity	***Non-Entity***	***Entity***	***Non-Entity***
Intragovernmental Receivables	$12,001	$13,206	$8,650	$14,419
Governmental Receivables:				
Taxes/Fees		$ 16,533		$ 12,125
Interest		2,809		3,689
Penalties		1,489		2,553
Restitution Cases		8		10
		20,839		18,377
Less: allowance for uncollectible amounts		(18,261)		(16,814)
Governmental Receivables, Net		$ 2,578		$ 1,563

Intragovernmental entity receivables represent amounts due under reimbursable agreements with Federal entities for services provided by ATF. An allowance for receivables deemed uncollectible was not established for these amounts because monies due from other Federal entities are considered fully collectible.

Intragovernmental non-entity receivables consist principally of funds due to ATF from the Treasury to refund certain excise tax and license fee claims.

Governmental non-entity receivables consist principally of outstanding excise and Special Occupational Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year end.

An allowance for uncollectible amounts has been recognized for governmental non-entity receivables. The allowance is based on an analysis of individual receivable balances and historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. In FY 1996 and FY 1995, approximately $8.1 million and $11.5 million of the allowance, respectively, was based on cases that ATF had entered into negotiations for payment through offers-in-compromise.

Note 4. Aircraft Materials and Supplies

In FY 1996, the Bureau transferred all of its aircraft materials and supplies to the Department of State.

Aircraft materials and supplies consisting of aircraft spare parts and thirteen aircraft designated for cannibalization (to be used as replacement parts), as of September 30, 1995, were as follows:

(In Thousands)		***FY 1995***
Spare Parts and Supplies:		
Expendable Parts		$19,179
Rotable Parts		6,839
Aircraft Used as Parts		24,300
	Total	$50,318

The aircraft held for cannibalization (Aircraft Used as Parts) and the majority of the Spare Parts and Supplies were transferred in from the Department of Defense. The valuation of aircraft spare parts and supplies transferred in was based on replacement cost. The valuation of the aircraft held for cannibalization was based on book value at the time of initial transfer to ATF.

Rotable parts are depreciated over their remaining useful lives when affixed to aircraft. Expendable parts are categorized as assets and expensed when used.

Note 5. Property and Equipment, Net

Property and equipment consist of the following as of September 30, 1996 and 1995:

FY 1996 *(In Thousands)*	***Service Life (Years)***	***Acquisition Value***	***Accumulated Depreciation***	***Net Book Value***
Aircraft	20	$ -	$ -	$ -
ADP Software	3	162	88	74
Equipment	2 - 10	74,276	48,271	26,005
Leasehold Improvements		3,886	1,697	2,189
Assets Under Capital Lease		450	159	291
Construction in Progress		153	-	153
Total Property & Equipment		$78,927	$50,215	$28,712

In FY 1996, the Bureau transferred all of its aircraft and related assets to the Department of State.

Construction in progress represents initial costs of developing Bureau requirements for the construction of a new headquarters building.

Note 5. Property and Equipment, Net

(Continued)

FY 1995 (In Thousands)	*Service Life (Years)*	*Acquisition Value*	*Accumulated Depreciation*	*Net Book Value*
Aircraft	20	$20,695	$ 1,070	$19,625
ADP Software	3	130	36	94
Equipment	2 - 10	69,801	43,515	26,286
Leasehold Improvements		3,173	910	2,263
Assets Under Capital Lease		940	233	707
Total Property & Equipment		$94,739	$45,764	$48,975

- Depreciation and amortization are calculated using the straight line method.
- Leasehold improvements are amortized over the lesser of the life of the lease or useful life of the asset.

Assets under capital lease are capitalized at the lesser of present value of future payments or fair market value at the time of acquisition and depreciated under the guidelines of the respective property categories.

Note 6. FECA Liablities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease. Claims incurred for benefits to ATF employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by ATF.

The accrued FECA liability as of September 30, 1996 and 1995, was $15.9 million and $16.3 million, respectively. This accrual represents claims incurred for benefits administered and paid by DOL to ATF employees. ATF will reimburse DOL for these claims in future periods.

Based on information provided by DOL, the Department of the Treasury determined that the FECA actuarial liability for ATF, as of September 30, 1996 and 1995, was $79.5 million and $75.5 million, respectively. The FECA actuarial estimate includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was determined using the paid losses extrapolation method calculated over the next 23-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. For FY 1996, these annual benefit payments have been discounted to present value using the discount rates of: 6.21 percent in year one; 5.97 percent in year two; 5.60 percent in year three; 5.32 percent in year four; 5.15 percent in year five; and 5.10 percent thereafter. For FY 1995, annual benefit payments were discounted to present value using discount rates of 7.10 percent in year one, 6.60 percent in year two and 7.00 percent each year thereafter.

The effect of the increase in the FY 1996 and the decrease in the FY 1995 estimated actuarial liabilities from the FYs 1995 and 1994 estimated actuarial liabilities, respectively, of $4.0 million and $1.2 million are reflected as a change in actuarial liability on the Statements of Operations and Changes in Net Position.

Note 7. Leases

Capital Lease Liability

Future minimum lease payments due for capital leases as of September 30, 1996 and 1995, are as follows:

(In Thousands)	***FY 1996***	***FY 1995***
Fiscal Year		
1996	$ -	$240
1997	118	129
1998	43	52
1999	18	19
Future Lease Payments	$179	$440
Less: Imputed Interest	(34)	(71)
Capital Lease Liability	$145	$369

The Bureau entered into a number of capital lease agreements for laboratory and office equipment prior to FY 1996. In FY 1996, the Bureau paid in full several lease agreements and did not enter into any new capital leases, resulting in a reduction of Capital Lease Liability. Assets acquired by capital lease agreements are reported on the accompanying Statements of Financial Position based on the present value of the future minimum lease payments. Imputed interest rates range from 5.0 to 7.6 percent.

The capital lease liability is expected to be funded from future sources and is presented on the Statements of Financial Position as a component of entity liabilities not covered by funded resources.

Operating Leases

The Bureau leases various equipment under leases accounted for as operating leases. Future commitments for operating leases as of September 30, 1996 and 1995, are as follows:

(In Thousands)	***Fiscal Year***	***FY 1996***	***FY 1995***
	1996	$ -	$ 72
	1997	166	28
	1998	138	13
	1999	110	-
	2000	33	-
Future Lease Commitments		$447	$113

Note 8. Contingent Liabilities

ATF is a party to various administrative proceedings, legal actions, and claims brought by or against it. Most financial liabilities resulting from litigation and claims against ATF are payable from the permanent judgment appropriation established by 31 U.S.C. Section 1304. In the opinion of the Bureau's management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operation of ATF. At September 30, 1996 and 1995, ATF legal counsel was processing approximately 250 and 240, respectively, of these actions against the Bureau. ATF identified and accrued, at September 30, 1996 and 1995, $865,000 and $354,000, respectively, as probable liability on the Statements of Financial Position. The September 30, 1996 probable liability results from the following types of claims pending resolution which would affect ATF appropriations.

- Administrative tort and employee claims in process against ATF for which counsel has identified $25,000 as probable liability. Counsel identified $34,000 as probable liability for those claims in FY 1995. When any administrative tort claim of $2,500 or greater is allowed, it is referred to the General Accounting Office for payment from the Judgment Fund.
- Cases seeking reimbursement of attorney fees under the Equal Access to Justice Act for which counsel has identified $120,000 as probable liability. No liability for these cases was accrued in FY 1995.
- Administrative employee claims for retirement and other benefits for which counsel has identified $720,000 as probable liability. No liability for these cases was accrued in FY 1995.

The change in contingent liabilities from September 30, 1995, resulted from the activity detailed above and the resolution of the following claims in FY 1996:

- Claims brought by plaintiffs seeking back pay under the Fair Labor Standards Act in process against ATF for which the Bureau recorded a probable liability of $20,000 were resolved during FY 1996.
- Probable liability for other similar, not yet filed claims for back pay under the Fair Labor Standards Act estimated at $300,000. The Statute of Limitations for filing these claims expired as of FY 1996.

Public Law 101-510, enacted November 5, 1990, requires Federal agencies to automatically cancel obligated balances on annual appropriated funds after specific future time periods, even though the agency remains contingently liable to pay valid contractor invoices for services received under contracts signed in the year of obligation. Legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be paid from current appropriations available for the same purpose. ATF canceled approximately $470,000 and $1.5 million of obligations relating to appropriations canceled at the end of FY 1996 and FY 1995, respectively. ATF estimates obligations relating to canceled appropriations that will be paid from future appropriations will not exceed $1.0 million in any fiscal year.

Note 9. Net Position

Net position of the Bureau as of September 30, 1996 and 1995, is as follows:

FY1996 *(In Thousands)*	***Trust Funds***	***Appropriated Funds***	***Total***
Unexpended Appropriations:			
Unobligated			
Available	$ 3,748	$ 25,919	$ 29,667
Unavailable	-	3,274	3,274
Undelivered Orders	5,628	33,937	39,565
Invested Capital	2,654	19,041	21,695
Other	-	7,017	7,017
Future Funding Requirements	-	(119,904)	(119,904)
Net Position	$12,030	$ (30,716)	$ (18,686)

FY1995 (Restated) *(In Thousands)*	***Trust Funds***	***Appropriated Funds***	***Total***
Unexpended Appropriations:			
Unobligated			
Available	$2,760	$ 41,376	$ 44,136
Unavailable	-	2,906	2,906
Undelivered Orders	6,259	26,893	33,152
Invested Capital	392	18,968	19,360
Other	-	79,933	79,933
Future Funding Requirements	-	(114,759)	(114,759)
Net Position	$9,411	$ 55,317	$ 64,728

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Invested capital represents Federal Government resources invested in ATF's property and equipment. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of materials and supplies.

Other represents transfers in of equipment, materials and supplies from other Federal agencies without reimbursement, and assets donated by non-governmental entities. Increases to the other category are recorded when assets are transferred in, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of materials and supplies.

Note 9.
Net Position

(Continued)

Future funding requirements represent (a) accumulated annual leave earned but not taken, (b) accrued workers' compensation, (c) capital lease requirements, and (d) accrued contingent liabilities. The expense for these accruals is not funded from current appropriations but rather will be funded from future appropriations and assessments.

Note 10.
Other Revenue and Financing Sources

Other revenue and financing sources for the years ended September 30, 1996 and 1995 are as follows:

(In Thousands)	***FY 1996***	***Unaudited FY 1995***
Entity:		
Reimbursement From Services Provided	$18,121	$19,525
Other Financing Sources	$2,880	$2,066
Non-Entity:		
Other Revenue	$148	$249

Reimbursement from services provided represents amounts earned from other government agencies for services provided by the Bureau under reimbursable agreements. ATF has entered into a variety of reimbursable agreements to provide services such as enforcement, training and professional development, science and information technology, and the management of common areas. These agreements are with agencies such as the Secret Service, Department of Justice, the National Drug Intelligence Center, Housing and Urban Development, the State Department, the Environmental Protection Agency, and other components of Treasury. ATF maintains a reimbursable agreement with the governments of Puerto Rico and the Virgin Islands which stipulates that any expenses incurred by the Department of the Treasury at these sites are to be fully offset from tax collections related to distilled spirits production or manufacture.

Entity other financing sources represent depreciation of operational aircraft and other assets transferred in from other entities.

Non-entity other revenue includes court ordered restitution for criminal acts against ATF, interest on agent cashier funds, and monies representing legally processed debts collected by the Justice Department and transferred to ATF. The debts involve commercial litigation, criminal restitution, and other monetary claims.

Note 11. Taxes

Taxes collected for the Federal Government, net of refund disbursements and accruals for claims payable for the years ended September 30, 1996 and 1995, include the following:

(In Thousands)		***FY 1996 Net Revenue***		***Unaudited FY 1995 Net Revenue***
Alcohol and Tobacco Excise Taxes		$12,406,784		$12,867,696
Puerto Rico/Virgin Island Cover Over	(223,706)		(207,725)	
Manufacturer of non-Beverage Products Drawbacks	(235,901)		(235,198)	
Firearms Excise Taxes		163,101		186,269
Special Occupational Taxes		107,854		110,268
National Firearms Act Making/Transfer Taxes		4,330		1,306
License and Permit Fees		4,396		3,596
Floor Stock Taxes		104		173
Other Tax Revenue		82		423
Total Tax Revenue, Net		$12,227,044		$12,726,808
Interest and Penalties, Non-Federal		$3,411		$854

At September 30, 1996 and 1995, ATF had approximately $11.5 million and $11.2 million, respectively, in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

Other tax revenue represents revenue resulting from various tax offers-in-compromise and payments for permit and recordkeeping violations.

In FY 1995, Public Law 103-465, Section 712, accelerated the payment schedule for excise taxes. Taxes due for the period September 16-26 must be paid by September 29. Before FY 1995, taxes due for the period September 16-30 were not required to be paid until October 14 of the following fiscal year. Thus, FY 1995 tax revenue included an extra revenue collection period not included in FY 1996, which amounted to approximately $500 million.

Beginning in FY 1996, revenue for taxes, interest, and penalties is accrued when accounts receivable are established. No material effect on FY 1995 tax revenue resulted from this change in accounting principle. Approximately $2.8 million of the net tax revenue for FY 1996 for interest and penalties represents accrued revenue.

Note 12. Program and Operating Expenses

Program and operating expenses, by object classification, for the years ended September 30, 1996 and 1995, are as follows:

(In Thousands)	*FY 1996*	*(Restated) Unaudited FY 1995*
Personal Services and Benefits	$304,602	$297,452
Travel and Transportation	14,925	12,550
Rental, Communication and Utilities	50,678	49,744
Printing and Reproduction	1,615	1,927
Contractual Services	39,659	32,727
Supplies and Materials	8,489	7,761
Equipment not Capitalized	10,204	2,760
Insurance Claims and Indemnities	141	585
Other:		
Contingent Liabilities	511	354
Total Expenses by Object Classification	$430,824	$405,860

Operating expenses by appropriation for the years ended September 30, 1996 and 1995, are as follows:

(In Thousands)	*FY 1996*	*(Restated) Unaudited FY 1995*
Salaries and Expenses	$378,629	$380,710
Salaries and Expenses Reimbursable	16,600	18,394
Violent Crime Trust Funds	24,878	6,306
No-Year	10,541	200
Transfers	176	-
Prior Year	-	250
Total Expenses by Appropriation	$430,824	$405,860

Note 13.
Prior Period Adjustment

In FY 1995, ATF calculated the September 30, 1995 accrued leave liability using the employee's basic rate of pay. The Bureau did not include the Law Enforcement Availability Pay (LEAP), which is an additional 25 percent of a criminal investigator's rate of basic pay, in the accrued leave calculation.

Accordingly, in FY 1996, ATF recalculated the FY 1995 accrued leave to include LEAP. It was determined that LEAP totaling $2.759 million was not accrued at September 30, 1995. The FY 1995 personal services and benefits expense, accrued leave, and future funding requirements balances have been restated in the financial statements to include LEAP.

Note 14.
Non-Operating

Non-operating changes for the years ended September 30, 1996 and 1995, are as follows:

(In Thousands)	***FY 1996***	***Unaudited FY 1995***
Change in Unexpended Appropriations	$ (7,687)	$45,783
Change in Assets Transferred-In From Other Agencies	(2,211)	28,234
Change in Assets Transferred-Out to Other Agencies	(70,706)	-
Change in Fixed Assets	2,335	3,112
Payments on Prior Years' Unfunded Expenses	8,655	-
Total Non-Operating Changes	$(69,614)	$77,129

Note 15.
Analyses of Changes in Seized Property/ Currency and Forfeited

ATF uses the Department of Justice's Consolidated Asset Tracking System (CATS) to support its fiduciary stewardship responsibilities as they relate to seized and forfeited property. ATF is a full participating member of the Department of the Treasury Forfeiture Fund (TFF).

Accounting methodologies for seized and forfeited property reflect standards published in OMB Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, OMB Bulletin No. 94-01, and Departmental accounting policy.

Seized property includes all property such as monetary instruments, real property, and tangible personal property of others, that is in actual, constructive, or custodial possession of the Federal Government as a result of enforcement of Federal law. Although seized property is not legally owned by the Federal Government until judicially or administratively forfeited, ATF does have a fiduciary responsibility for such property. Because of the fungible nature of currency and the high level of control required to maintain it, seized currency is reported as a non-entity asset of the TFF upon seizure. However, data on currency seized and/or forfeited by ATF are reported as part of this note. All seized property including currency is reported as an entity asset of the TFF upon forfeiture. All property seized by ATF for Title 18 forfeiture is accounted for in the financial statements of the TFF, and is also disclosed in this note. Seized property activity is also reported in the notes to the TFF financial statements.

Seized property is appraised at fair market value by the seizing official (ATF special agent). In cases where value cannot be readily assessed, independent appraisal is obtained. Current values and valuations at time of seizure may differ due to market fluctuations. A valuation allowance for liens or claims from a third party is reflected in schedules below.

Note 15. Analyses of Changes in Seized Property/ Currency and Forfeited Property

(Continued)

ATF has the authority in accordance with provisions of the Federal Criminal Code and Federal Rules of Criminal Procedure to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it is intended to be returned to the owner at some future date. This property is not disclosed in the financial statements, but does represent a fiduciary responsibility for ATF.

The following charts represent an analysis of the changes in seized property for the periods ended September 30, 1996 and 1995. These charts include net adjustments that correct for the effect of events which were improperly recorded and reported, or were not recorded and reported at all in the FY 1995 Seized Analysis of Changes tables.

FY 1996 Analysis of Changes in Seized Property/Currency
(dollars in thousands)

	Balance 10/1/95	*Net Adjustments*	*Seizures*	*Cash Adjustments*	*Remissions*	*Forfeitures*	*Balance 9/30/96*
Currency	$1,798	$45	$ 679	$ -	$ -	$(133)	$2,389
Other Cash	-	-	-	-	-	-	-
Other Monetary Instruments	838	(68)	-	160	-	-	930
Real Property	234	6	69	-	-	(198)	111
General Property, Cigarettes	389	(47)	374	-	-	(157)	559
General Property, Other Units	3	3	20	-	-	-	26
General Property, Liquor	593	22	430	-	-	(393)	652
General Property, Prohibited Units	-	-	-	-	-	-	-
Aircraft	-	-	-	-	-	-	-
Vehicles	849	(173)	219	-	(9)	(108)	778
Total	$4,704	$(212)	$1,791	$160	$(9)	$(989)	$5,445

Note 15. Analyses of Changes in Seized Property/ Currency and Forfeited Property

(Continued)

FY 1995 Analysis of Changes in Seized Property/Currency
(dollars in thousands)

	Balance 10/1/94	Seizures	Other Adjustments	Cash Adjustments	Remissions	Forfeitures	Balance 9/30/95
Currency	$1,174	$ 655	$ -	$ -	$ -	$ (31)	$1,798
Other Cash	-	-	-	1	-	(1)	-
Other Monetary Instruments	730	40	68	-	-	-	838
Real Property	234	20	-	-	-	(20)	234
General Property, Cigarettes	149	251	-	-	-	(11)	389
General Property, Other Units	-	8	-	-	-	(5)	3
General Property, Liquor	496	133	-	-	-	(36)	593
General Property, Prohibited Units	-	-	-	-	-	-	-
Aircraft	165	-	-	-	(165)	-	-
Vehicles	655	316	-	(6)	(58)	(58)	849
Total	$3,603	$1,423	$68	$(5)	$(223)	$(162)	$4,704

FY 1996 Analysis of Changes in Seized Property/Currency
(number of transactions)

	Balance 10/1/95	Net Adjustments	Seizures	Cash Adjustments	Remissions	Forfeitures	Balance 9/30/96
Currency	70	8	22	-	-	(21)	79
Other Cash	-	-	-	-	-	-	-
Other Monetary Instruments	2	-	-	-	-	-	2
Real Property	6	(3)	1	-	-	(2)	2
General Property, Cigarettes	8	88	218	-	-	(7)	307
General Property, Other Units	3	6	42	-	-	-	51
General Property, Liquor	14	24	27	-	-	(9)	56
General Property, Prohibited Units	5,192	177	8,916	-	(5)	(1,983)	12,297
Aircraft	-	-	-	-	-	-	-
Vehicles	58	(14)	17	-	(1)	(7)	53
Total	5,353	286	9,243	-	(6)	(2,029)	12,847

Note 15. Analyses of Changes in Seized Property/ Currency and Forfeited Property

(Continued)

FY 1995 Analysis of Changes in Seized Property/Currency (number of transactions)

	Balance 10/1/94	Seizures	Cash Adjustments	Remissions	Forfeitures	Balance 9/30/95
Currency	37	42	-	-	(9)	70
Other Cash	-	-	1	-	(1)	-
Other Monetary Instruments	1	1	-	-	-	2
Real Property	6	1	-	-	(1)	6
General Property, Cigarettes	2	9	-	-	(3)	8
General Property, Other Units	1	3	-	-	(1)	3
General Property, Liquor	10	7	-	-	(3)	14
General Property, Prohibited Units	2,745	2,743	-	-	(296)	5,192
Aircraft	1	-	-	(1)	-	-
Vehicles	38	28	(1)	(2)	(5)	58
Total	2,841	2,834	-	(3)	(319)	5,353

Seized property may be subsequently forfeited to the Federal Government through abandonment, administrative or judicial procedures. Forfeited property consists of: monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise.

Once forfeited, the property is either retained for official use by ATF, destroyed, sold, or transferred to a state, local, or federal agency or foreign government. If the forfeited property is transferred to ATF, the property then becomes an ATF asset and is included in its inventory records. All other proceeds resulting from disposition or sale of forfeited property should become assets of TFF. Forfeited property is reported at fair market value at time of forfeiture. A valuation allowance is established for any expected payments to third party claimants.

All contraband (prohibited) property such as illegal firearms, ammunition, and explosives which no longer have intrinsic economic value and will not be reintroduced into the open marketplace are subject to destruction. ATF does maintain fiduciary stewardship responsibility for contraband property from time of receipt through final disposition.

The following schedules represent an analysis of the changes in forfeited property holdings for the years ended September 30, 1996 and 1995. These charts include net adjustments that correct for the effect of events which were improperly recorded and reported, or were not recorded and reported at all in the FY 1995 Forfeited Property Analysis of Changes tables. Fair value adjustments are necessary to convert forfeited property from unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value at the time of forfeiture, which is the amount recorded in the TFF financial statements.

Note 15. Analyses of Changes in Seized Property/ Currency and Forfeited Property

(Continued)

FY 1996 Analysis of Disposition of Forfeited Property
(dollars in thousands)

	Balance 10/1/95	Net Adjustments	Forfeitures	Deposits	Sales	Transfers	Transfers to Third Parties	Fair Value Adjustment	Balance 9/30/96
Currency	$ 39	$ -	$133	$(161)	$ -	$ -	$ -	$ -	$ 11
Other Cash	1	-	-	(1)	-	-	-	-	-
Real Property	180	3	198	-	(46)	-	-	3	338
General Property, Cigarettes	15	-	157	-	(22)	-	-	(111)	39
General Property, Liquor	24	-	393	-	(59)	-	-	(271)	87
General Property, Other Units	2	-	-	-	(2)	-	-	-	-
General Property, Prohibited Units	-	-	-	-	-	-	-	-	-
Vehicles	125	-	108	-	(95)	(64)	-	25	99
Total	$386	$3	$989	$(162)	$(224)	$(64)	$ -	$(354)	$574

	Balance 10/1/95	Balance 9/30/96
Inventory Pending Sale	$399	$563
Inventory Pending Transfer	-	11
Total	$399	$574

FY 1995 Analysis of Disposition of Forfeited Property
(dollars in thousands)

	Balance 10/1/94	Net Adjustments	Forfeitures	Deposits	Sales	Transfers	Transfers to Third Parties	Fair Value Adjustment	Balance 9/30/95
Currency	$ 90	$ -	$ 31	$(82)	$ -	$ -	$ -	$ -	$ 39
Other Cash	-	-	1	-	-	-	-	-	1
Real Property	213	-	20	-	(49)	-	-	(4)	180
General Property, Cigarettes	148	-	11	-	(110)	-	-	(34)	15
General Property, Liquor	480	-	36	-	(404)	(36)	-	(52)	24
General Property, Other Units	-	-	5	-	-	-	-	(3)	2
General Property, Prohibited Units	-	-	-	-	-	-	-	-	-
Vehicles	288	-	58	-	(153)	(28)	(9)	(31)	125
Total	$1,219	$ -	$162	$(82)	$(716)	$(64)	$(9)	$(124)	$386

	Balance 10/1/94	Balance 9/30/95
Inventory Pending Sale	$1,051	$399
Inventory Pending Transfer	36	-
Total	$1,087	$399

Note 15. Analyses of Changes in Seized Property/ Currency and Forfeited Property

(Continued)

FY 1996 Analysis of Disposition of Forfeited Property
(number of transactions)

	Balance 10/1/95	Net Adjustments	Forfeitures	Deposits	Sales	Transfers	Transfers to Third Parties	Destructions	Balance 9/30/96
Currency	6	-	21	(13)	-	-	-	-	14
Other Cash	1	-	-	(1)	-	-	-	-	-
Real Property	5	1	2	-	(2)	-	-	-	6
General Property, Cigarettes	3	-	7	-	(2)	-	-	-	8
General Property, Liquor	3	-	9	-	(1)	-	-	-	11
General Property, Other Units	2	-	-	-	(1)	-	-	-	1
General Property, Prohibited Units	429	-	1,983	-	-	(2)	-	(1,764)	646
Vehicles	4	-	7	-	(4)	(4)	-	-	3
Total	453	1	2,029	(14)	(10)	(6)	-	(1,764)	689

FY 1995 Analysis of Disposition of Forfeited Property
(number of transactions)

	Balance 10/1/94	Net Adjustments	Forfeitures	Deposits	Sales	Transfers	Transfers to Third Parties	Destructions	Balance 9/30/95
Currency	13	-	9	(16)	-	-	-	-	6
Other Cash	-	-	1	-	-	-	-	-	1
Real Property	5	-	1	-	(1)	-	-	-	5
General Property, Cigarettes	2	-	3	-	(2)	-	-	-	3
General Property, Liquor	13	-	3	-	(12)	(1)	-	-	3
General Property, Other Units	1	-	1	-	-	-	-	-	2
General Property, Prohibited Units	725	-	296	-	-	-	-	(592)	429
Vehicles	10	-	5	-	(6)	(4)	(1)	-	4
Total	769	-	319	(16)	(21)	(5)	(1)	(592)	453